

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois Commerce Commission	:	
On Its Own Motion	:	
	:	
-vs-	:	05-0748
	:	
North Shore Gas Company	:	
	:	
	:	
Reconciliation of revenues collected under	:	
gas adjustment charges with actual costs	:	
prudently incurred.	:	

**REPLY BRIEF ON EXCEPTIONS OF THE STAFF  
OF THE ILLINOIS COMMERCE COMMISSION**

Pursuant to Section 200.830 of the Illinois Commerce Commission's ("Commission") Rules of Practice (83 Ill. Adm. Code 200.830), Staff of the Illinois Commerce Commission ("Staff"), by and through its undersigned counsel, respectfully submits its Reply Brief on Exceptions to North Shore Gas Company's ("North Shore" or the "Company") Brief on Exceptions ("BOE") filed in response to the Administrative Law Judges' Proposed Order issued on November 5, 2007 ("Proposed Order").

**I. ARGUMENT**

**A. North Shore Exception 1 - Bank Gas Liability**

North Shore's BOE presents no new argument for its position regarding why its "correction" to the bank gas liability balance should not be disallowed. (North Shore BOE, pp. 2-5.) Rather, the Company has merely repeated the same arguments which the Proposed Order properly dismissed by stating,

This situation, however, does not warrant making such an exception. The Commission finds that Staff and CUB have raised sufficient questions concerning the Company's internal accounting controls. (Proposed Order, p. 9.)

Staff's concerns regarding the Company's internal accounting controls and its full and complete response to the arguments in North Shore's BOE can be found in Staff's Initial Brief. (See Staff Initial Brief, pp. 5-8.)

North Shore acknowledges again, yet dismisses, its past lack of reconciliations (North Shore BOE, p. 3, lines 52-54; p. 9, lines 188-189), while expecting the PGA ratepayers to make the Company whole for its mistakes. North Shore further attempts to confuse pricing of the adjustment by stating that there is no evidence that the LIFO price is the incorrect way to value the bank gas liability. (North Shore BOE, p. 6.) Staff did not take exception to LIFO pricing of the change in bank gas liability. However, as the Proposed Order properly notes, North Shore has not shown why the current LIFO price should be charged to current customers for gas delivered over at least the last 14 years. (Proposed Order, p. 9.) Finally, North Shore's hypothetical Scenarios 1, 2 and 3, and the resulting options (i) and (ii) (North Shore BOE, pp. 7-8) are not new and have been considered and rejected by the Proposed Order (Proposed Order, p. 9).

Accordingly, Staff believes it is neither appropriate nor necessary to change the language in the Proposed Order pursuant to any of North Shore's three suggested alternatives (North Shore BOE, Attachment A, pp. 1-5).

**B. North Shore Exception 2 - Bank Gas Liability Prior Period Adjustment**

North Shore's BOE presents no new argument for its position regarding the bank gas liability prior period adjustment. (North Shore BOE, pp. 10-11.) Rather, it has merely repeated the same mantra that its out of period correction is appropriate despite the Commission Order and settlement of its FY 2004 PGA proceeding (Docket No. 04-0682). Notably, North Shore suggests that it is not apparent why an Order on the merits of the FY 2004 proceeding would have been different from the settlement. (North Shore BOE, p. 11, footnote 4.) Clearly, the adjustment at issue was not known at the time of the settlement and, therefore, not considered in the settlement. Now, with the evidence at hand, North Shore attempts to maintain the benefits it reaped under the settlement, while exacting additional FY 2004 costs in the instant proceeding.

There is nothing in North Shore's BOE that has not previously been considered in this proceeding. As such, Staff's full and complete response to the arguments in North Shore's BOE can be found in Staff's Initial Brief. (See Staff Initial Brief, pp. 9-10.) Moreover, the Proposed Order has considered North Shore's claim, weighed with the evidence, and found in favor of Staff. (Proposed Order, p. 11.) Accordingly, Staff believes it is neither appropriate nor necessary to change the language in the Proposed Order pursuant to North Shore's suggested replacement language (North Shore BOE, Attachment A, pp. 5-6).

**C. North Shore Exception 3 - Findings, Ordering Paragraphs and Appendix A**

North Shore requests that Finding (5), the second Ordering paragraph, and Appendix A to the Proposed Order be revised to reflect the Company's desired conclusions regarding its bank gas liability. (North Shore BOE, p. 13; Attachment A, pp. 6, 8.) Since Staff does not believe the conclusions in the Proposed Order should be changed regarding North Shore's bank gas liability, Staff believes that the Company's proposed changes should be rejected.

**D. North Shore Exceptions 4 and 5**

North Shore suggests changing a reference from "16 years" to "14 years" on page 9 and making "Administrative Law Judges" plural on page 1 of the Proposed Order. (North Shore BOE, p. 13; Attachment A, pp. 6-7.) Staff has no objection to North Shore's Exceptions 4 and 5.

**II. CONCLUSION**

For the foregoing reasons, Staff of the Illinois Commerce Commission respectfully requests that its recommendations be adopted in this proceeding and that the Proposed Order be modified as set forth in this Reply Brief on Exceptions and Staff's Brief on Exceptions.

Respectfully submitted,

A handwritten signature in black ink that reads "Linda M. Buell". The signature is written in a cursive, flowing style.

LINDA M. BUELL

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Commerce Commission

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